

Shropshire Council
Legal and Democratic Services
Shirehall
Abbey Foregate
Shrewsbury
SY2 6ND

Date: Wednesday, 9 September
2015

**Committee:
Audit Committee**

Date: Thursday, 17 September 2015
Time: 10.30 am
Venue: Shirehall, Abbey Foregate, Shrewsbury, Shropshire, SY2 6ND

You are requested to attend the above meeting.
The Agenda is attached

Claire Porter
Corporate Head of Legal and Democratic Services (Monitoring Officer)

Members of Audit Committee

Brian Williams (Chairman)
Michael Wood (Vice Chairman)
John Cadwallader

Chris Mellings
Mansel Williams

Your Committee Officer is:

Michelle Dulson Committee Officer
Tel: 01743 257719
Email: michelle.dulson@shropshire.gov.uk

AGENDA

1 Apologies for Absence / Notification of Substitutes

2 Disclosable Pecuniary Interests

Members are reminded that they must not participate in the discussion or voting on any matter in which they have a Disclosable Pecuniary Interest and should leave the room prior to the commencement of the debate.

3 Minutes of the previous meeting held on the 25 June 2015 (Pages 1 - 10)

The Minutes of the meeting held on the 25 June 2015 are attached for confirmation marked 3.

Contact Michelle Dulson (01743) 257719

4 Public Questions

To receive any questions from the public, notice of which has been given in accordance with Procedure Rule 14.

5 Management Report on Programme Controls and Risks and the Top Fifty Contracts Controls and Risks

The report of the Director of Commissioning is to follow.

Contact: George Candler 01743 255003

6 Management Report on Housing Benefit Overpayment Performance (Pages 11 - 14)

The report of the Revenues and Benefits Service Manager is attached marked 6.

Contact Phil Weir 01743 256113

7 Sales Ledger update on progress implementing improved management controls

The report of the Head of Financial Management & Reporting is to follow.

Contact: Cheryl Williams 01743 258937

8 External Audit: Shropshire Council Audit Findings 2014/15

The report of the Engagement Lead is to follow.

Contact: Jon Roberts (0121) 232 5383

9 Audited Annual Statement of Accounts 2014/15

The report of the Head of Finance, Governance and Assurance (Section 151 Officer) is to follow

Contact: James Walton 01743 255011

10 Annual Treasury Report 2014/15 (Pages 15 - 28)

The report of the Head of Finance, Governance and Assurance (Section 151 Officer) is attached marked 10.

Contact: James Walton 01743 255011

11 Risk Annual Report 2014/15 (Pages 29 - 42)

The report of the Risk Management Team Leader is attached, marked 11.

Contact: Angela Beechey 01743 252073

12 Strategic Risks Update (Pages 43 - 52)

The report of the Risk Management Team Leader is attached, marked 12.

Contact: Angela Beechey 01743 252073

13 Internal Audit Plan Performance Update 2015/16 (Pages 53 - 64)

The report of the Audit Service Manager is attached, marked 13.

Contact: Ceri Pilawski 01743 252027

14 External Audit: Shropshire County Pension Fund Audit Findings Report 2014/15

The report of the Engagement Lead is to follow.

Contact: Jon Roberts (0121) 232 5383

15 External Audit: Audit Committee update

The report of the Engagement Lead is to follow.

Contact: Jon Roberts (0121) 232 5383

16 Date and Time of Next Meeting

The next meeting of the Audit Committee will be held on the 26 November 2015 at 9.30 am in the Ludlow Room.

17 Exclusion of Press and Public

To RESOLVE that in accordance with the provision of Schedule 12A of the Local Government Act 1972, Section 5 of the Local Authorities (Executive Arrangements)(Meetings and Access to Information)(England) Regulations and Paragraphs 2, 3 and 7 of the Council's Access to Information Rules, the public and press be excluded during consideration of the following items.

18 Exempt minutes of the previous meeting held on the 25 June 2015 (Pages 65 - 66)

The exempt minutes of the meeting held on the 25 June 2015 are attached for confirmation, marked 18.

Contact Michelle Dulson (01743) 257719

19 Fraud and Special Investigation Update September 2015 (Exempted by Categories 2, 3 and 7) (Pages 67 - 72)

The report of the Engagement Auditor is attached, marked 20.

Contact: Katie Williams (01743) 252087



Committee and Date

Audit Committee

17 September 2015

MINUTES OF THE AUDIT COMMITTEE MEETING HELD ON 25 JUNE 2015 9.30 AM - 12.30 PM

Responsible Officer: Michelle Dulson

Email: michelle.dulson@shropshire.gov.uk Tel: 01743 252727

Present

Councillor Brian Williams (Chairman)

Councillors Michael Wood (Vice Chairman), John Cadwallader, Chris Mellings and Pamela Moseley (Substitute) (substitute for Mansel Williams)

7 Apologies for Absence / Notification of Substitutes

7.1 An apology for absence was received from Councillor Mansel Williams.

7.2 Councillor Pam Moseley substituted for Councillor Mansel Williams.

8 Disclosable Pecuniary Interests

8.1 The Chairman reminded Members that they must not participate in the discussion or voting on any matter in which they have a Disclosable Pecuniary Interest and should leave the room prior to the commencement of the debate.

9 Minutes of the previous meetings held on 23 February, 14 May and 5 June 2015

9.1 Minutes of the meeting held on 5 June 2015 - Paragraph 5.1

It was agreed that the resolution should read 'that the report of the Head of Programme Management be noted'.

9.2 **RESOLVED:** That, subject to the above, the Minutes of the meetings held on 23rd February, 14 May and 5 June 2015 be approved and signed by the Chairman as a correct record.

10 Public Questions

10.1 There were no public questions.

11 Council tax and NNDR performance report monitoring

- 11.1 The Committee received the report of the Revenues and Benefits Service Manager (copy attached to the signed Minutes), which provided Members with performance monitoring information on the collection of Council Tax and Non Domestic Rates (Business Rates) income for the year to 31 March 2015, together with progress on the year to 31 March 2016.
- 11.2 The Revenues and Benefits Service Manager reported that the final collection rate for council tax for 2014-15 was £149,829,554 or 98.2% which compared favourable to the previous year's collection rate of 98.1%. In the year to 15 June 2015, 27.2% of council tax had been collected compared to 27.1% for the equivalent period last year. The total arrears for council tax as at 31 March 2015 stood at £8.6m but by 1 June 2015 this had reduced to £7.9m.
- 11.3 In respect of Business Rates (NNDR), the Revenues and Benefits Service Manager stated that £77,058,449 or 98.7% had been collected between the 1 April 2014 and the 31 March 2015 which again compared favourably with the previous year's collection rate of 98.3%. In the year to 15 June 2015, 32.7% of business rates debt had been collected compared to 26% for the equivalent period last year. The total arrears for Business Rates stood at £3.5m as at 1 June 2015.
- 11.4 In response to a query, the Revenues and Benefits Service Manager explained that the Council were not actively taking debtors to committal but instead sought to obtain an attachment of earnings/benefits order. The threat of going to court however did lead to some people settling their debts. It was also reported that the Council's Enforcement Agents had more success by telephoning or writing to debtors rather than sending in the Bailiffs.
- 11.5 **RESOLVED:** That the contents of the report be noted.

12 2014/2015 Review of the Whistleblowing - 'Speaking up about Wrongdoing'

- 12.1 The Committee received the report of the HR Manager (copy attached to the signed Minutes), which provided Members with an update on the number of Whistleblowing cases raised regarding Council employees over the last year (excluding school based employees).
- 12.2 The Head of Human Resources and Development reported that two incidents of Whistleblowing had been investigated, one involving a data protection breach which had led to a dismissal and one involving theft, for which the investigation found no case to answer.
- 12.3 **RESOLVED:** That the contents of the report be noted.

13 2014/15 Settlement Agreements

- 13.1 The Committee received the report of the HR Business Partner (copy attached to the signed Minutes), which provided Members with an update on the number of

Settlement Agreements for Council employees over the last year, 1 April 2014 to 31 March 2015 (excluding school based employees).

- 13.2 The Head of Human Resources and Development explained that Settlement Agreements were legally binding documents used to resolve disputes where there was a risk that an Employment Tribunal claim may be made. She reported that Settlement Agreements had become more common as they were an easier option than dismissal and she felt that as the Council moved more towards becoming a commissioning council it may see an even greater increase in the use of Settlement Agreements.
- 13.3 The Head of Human Resources and Development informed the Committee that 13 Settlement Agreements had been entered into in 2014/15. In response to a query, the Head of Human Resources and Development confirmed that settlement values of over £100,000 must be signed off by full Council however in general employment matters did not require Member approval although the Portfolio Holder would be made aware of the situation. Only very robust cases with input from HR and Legal would be recommended for approval.
- 13.4 **RESOLVED:** That the contents of the report be noted.

14 Revenue outturn report 2014/15

- 14.1 The Committee received the report of the Section 151 Officer (copy attached to the signed Minutes), which provided Members with details of the revenue outturn position for Shropshire Council for 2014/15 and provided a summary of the revenue outturn for each service area with a commentary on the main variations and an outline of how the position had changed since Quarter 3; the movements in the Council's general balance and the Council's reserves and provisions.
- 14.2 It was noted that the final outturn for 2014/15 showed an overall net revenue expenditure of £223.145m and an underspend of £0.300m. This would be fed into the Medium Term Financial Plan. The Section 151 Officer explained that monitor reports were considered quarterly at Cabinet and monthly reports went to the Directors and Management Teams.
- 14.3 The Section 151 Officer drew attention to the table at Paragraph 6.2 which set out the budget variations by service area. In response to a query, the Section 151 Officer explained that the bad debt provision on the Housing Revenue Account had reduced by £300,000. However, it was felt that the impact of Universal Credit was yet to be seen.
- 14.4 In response to a query, it was confirmed that the level of schools balances had fallen slightly due to seven schools transferring to academy status. The Section 151 Officer explained the impact of non-controllable items on the outturn position.
- 14.5 In response to a query in relation to the planning reserve to improve the speed of planning applications being approved, the Section 151 Officer agreed to furnish Members with a fuller response outside of the meeting.
- 14.6 **RESOLVED:**

- A. To note that the Outturn for the Revenue Budget for 2014/15 was an underspend of £0.300m, which represented 0.05% of the original gross budget of £578m.
- B. To note that the level of general balance stood at £15.206m, which was above the anticipated level included within the Financial Strategy.
- C. To note that the Outturn for the Housing Revenue Account for 2014/15 was an underspend of £0.763m and the level of the Housing Revenue Account reserve stood at £3.076m (2013/14 £2.542m).
- D. To note the increase in the level of Earmarked Reserves and Provisions (excluding delegated school balances) of £17.939m in 2014/15.
- E. To note that the level of school balances stood at £3.957m (2013/14 £5.523m).

15 Capital outturn report 2014/15

- 15.1 The Committee received the report of the Section 151 Officer (copy attached to the signed Minutes), which informed Members of the final outturn position for the Council's 2014/15 capital programme and the current position regarding the 2015/16 to 2017/18 capital programme taking into account the slippage following the closure of the 2014/15 programme, and any budget increases/decreases for 2014/15 and future years.
- 15.2 The Section 151 Officer reported that the outturn capital expenditure was £54.2m, which represented 81.7% of the re-profiled budget. He explained the process for generating capital receipts, £4.4m of which had been generated in 2014/15.
- 15.3 In response to a query, the Section 151 Officer confirmed that although there were no current plans to take on any prudential borrowing, if any existing debts were due to be repaid the Council may need to refinance.

15.4 RESOLVED:

- A. That the budget variations of £209,067 to the 2014/15 capital programme, detailed in Appendix 1/Table 1 and the re-profiled 2014/15 capital budget of £66.4m be approved.
- B. That the re-profiled capital budgets of £66.6m for 2015/16, including slippage of £12.1m from 2014/15, £34.6m for 2016/17 and £27.5m for 2017/18 as detailed in Appendix 1/Table 4 be approved.
- C. That the outturn expenditure set out in appendix 1 of £54.2m, representing 81.7% of the revised capital budget for 2014/15 be accepted.
- D. That retaining a balance of capital receipts set aside of £14.1m as at 31st March 2015 to generate a Minimum Revenue Provision saving of £564,000 in 2015/16 be approved.

16 Annual Statement of Accounts 2014/15

- 16.1 The Committee received the report of the Section 151 Officer (copy attached to the signed Minutes), which provided Members with an overview of the Accounts and also provided details of the reasons for the most significant changes between the 2013/14 Accounts and the 2014/15 Accounts.
- 16.2 The Section 151 Officer drew Members' attention to the Analytical Review set out in Appendix 2 of the report, which highlighted a number of areas where there had been material changes. He reported that there had been some reduction in the amount of notes contained within the accounts and that the Pension Fund Accounts had been included in more detail this year.
- 16.3 In response to a query in relation to losses on the disposal of non-current assets (Paragraph 8 - Other Operating Expenditure) the Head of Financial Management & Reporting explained that the losses on disposal had decreased mainly due to seven schools transferring to academy status. The sum had therefore been taken out of the balance sheet and added to the income account. An explanation of this was contained in the Analytical Review.
- 16.4 In response to a query in relation to the large increase in the amount of money due to the Council but unpaid at 31 March 2015 (Paragraph 18 – Debtors), the Head of Financial Management & Reporting informed the Committee that this was due to an outstanding balance due from NHS Bodies. A reconciliation of this was ongoing whilst more debt was being added. The situation was continually monitored and had been raised at the highest level of both organisations.
- 16.5 **RESOLVED:**
- A. That the contents of the draft 2014/15 Statement of Accounts be noted.
 - B. That the Head of Finance, Governance and Assurance be authorised to make any final adjustments to the Statement of Accounts prior to the 30 June 2015.

17 Internal Audit Annual report 2014/15

- 17.1 The Committee received the report of the Audit Service Manager (copy attached to the signed Minutes), which provided Members with details of the work undertaken by Internal Audit for the year ended 31 March 2015. It also reported on progress against the Annual Audit Plan and contributed to the review of the effectiveness of the Internal Audit team as required by the Accounts and Audit Regulations 2011 6(3).
- 17.2 The Audit Service Manager reported that the revised plan had been delivered in excess of the 90% delivery target. 2,060 days had been provided in the plan however this figure had been revised to 2,147 days. In total, 141 final reports were issued in 2014/15. Ninety good or reasonable assurances were made (64%), which was a reduction of 11% on the previous year. This was offset by an 11% increase in limited (11) and unsatisfactory (40) opinions which accounted for 36% in total compared to 25% last year.
- 17.3 The Audit Service Manager confirmed that the number of fundamental recommendations had fallen from 18 to 6 compared to last year. Seven recommendations had been rejected by management, the reasons for rejection in 3

of the cases were not accepted and it was considered that the identified risks were not being managed or mitigated. No fundamental recommendations had been rejected.

17.4 The Audit Service Manager explained that she had qualified her overall opinion due to the significance of the ICT Infrastructure control issues identified. A further paper was requested in relation to the unsatisfactory assurance given for the sales ledger.

17.5 In response to a query the Section 151 Officer explained that the audit for ip&e had been done early in the process but it was hoped when a further review was undertaken it would no longer be unsatisfactory.

17.6 **RESOLVED:**

- a) That performance against the Audit Plan for the year ended 31 March 2015 be noted.
- b) To note that the system of internal control was operating effectively and could be relied upon when considering the Annual Governance Statement for 2014/15.
- c) To note the Audit Service Manager's qualified year end opinion on the Council's internal control environment for 2014/15 on the basis of the work undertaken and management responses received.

18 **Review of Shropshire Council's Code of Corporate Governance 2014/15**

18.1 The Committee received the report of the Engagement Auditor (copy attached to the signed Minutes), which clearly identified how the Council achieved effective Corporate Governance in 2014/15.

18.2 **RESOLVED:** To note that the Council has very strong compliance with the Code of Corporate Governance.

19 **Annual Governance Statement and a review of the effectiveness of the Council's system of internal control 2014/15**

19.1 The Committee received the report of the Section 151 Officer (copy attached to the signed Minutes) which set out the Annual Governance Statement to be considered following a review of the effectiveness of the Council's system of internal controls. An amended page of the Statement was circulated at the meeting which included a late submission.

19.2 The Section 151 Officer drew attention to the six core principles set out in paragraph 5.3 of the report together with the officers from whom further key assurances were provided (Paragraph 5.7). The Section 151 Officer briefly took Members through the main issues and challenges facing the Council, as set out at Paragraph 5.10.

19.3 **RESOLVED:** That the Annual Governance Statement 2013/14 be approved.

20 **Annual review of the effectiveness of the system of Internal Audit and Quality Assurance and Improvement Programme (QAIP) 2014/15**

20.1 The Committee received the report of the Section 151 Officer (copy attached to the signed Minutes) which provided Members with the results of a self-assessment of the Internal Audit Service against the requirements of the Public Sector Internal Audit Standards (PSIAS), compliance against which demonstrates an effective Internal Audit service.

20.2 The Section 151 Officer informed the Committee that the majority of standards had been fully complied with. The areas of non-compliance were detailed at paragraphs 5.7 to 5.9 of the report.

20.3 **RESOLVED:** To note the conclusion that the Council has an effective system of Internal Audit in place that complies with the principles of the Public Sector Internal Audit Standards and has planned improvement activities to ensure full compliance.

21 **Annual Assurance report of Audit Committee to Council 2014/15**

21.1 The Committee received the report of the Section 151 Officer (copy attached to the signed Minutes) which provided the Council with an independent assurance of an adequate and effective risk management and internal control system that could be relied upon and which contributed to the high corporate governance standards expected by the Council and which had been consistently maintained.

21.2 **RESOLVED:** That the Draft Annual Assurance Report be approved and that Council be recommended to accept the contents of the report.

22 **External Audit: Pension fund audit plan 2014/15**

22.1 The Committee received the report of the External Auditor (copy attached to the signed minutes), which set out the details of the planned audit work in relation to the Council's Pension Fund.

22.2 **RESOLVED:** That the contents of the report be noted.

23 **External Audit: Audit fee letter 2015/16**

23.1 The Committee received the report of the External Auditor (copy attached to the signed minutes), which set out details of the audit fee for the Council for 2015/16 along with the scope and timing of work to be undertaken by the External Auditors. The Council's scale fee for 2015/16 had been set by the Audit Commission at £133,845 compared to £177,390 for 2014/15.

23.2 **RESOLVED:** That the contents of the report be noted.

24 **External Audit: Audit Committee update**

24.1 The Committee received the report of the External Auditor (copy attached to the signed minutes) which provided members with a report on progress together with a summary of emerging national issues and developments which may be of relevance to the Council and also included several challenge questions in respect of the emerging issues which the Audit Committee may wish to consider in their future work or training programmes.

24.2 The External Audit Manager drew attention to the progress to date and to proposals to bring forward the closure and audit of local authority accounts.

24.3 **RESOLVED:** That the contents of the report be noted.

25 Date and Time of Next Meeting

25.1 **RESOLVED:** That the next meeting of the Audit Committee be held on 17 September 2015 at 9:30 am.

26 Exclusion of Press and Public

26.1 **RESOLVED:** That in accordance with the provision of Schedule 12A of the Local Government Act 1972 and paragraph 10.2 of the Council's Access to Information Procedure Rules, the public and press be excluded during consideration of the following items as defined by the categories specified against them.

27 Exempt Minutes

27.1 **RESOLVED:** That the Exempt Minutes of the meeting held on 5 June 2015 be approved and signed by the Chairman as a correct record.

28 IT Revised Implementation Plan for audit recommendations

28.1 The Committee received the exempt report of the Head of Programme Management (copy attached to the exempt signed minutes) which provided Members with a revised update on progress made on recommendations outlined in previous Internal Audit reports.

28.2 **RESOLVED:** That the contents of the exempt report be noted.

29 Fraud and Special Investigation and RIPA Update June 2015 (Exempted by Categories 2, 3 and 7)

29.1 The Committee received the exempt report of the Engagement Officer which provided an update on the current fraud and special investigations undertaken by the Internal Audit Team together with an update on the RIPA activity since the last meeting.

29.2 **RESOLVED:** That the contents of the exempt report be noted.

Signed (Chairman)

Date:

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Committee and Date
Audit Committee
17th September 2015

Item

Public

BENEFIT OVERPAYMENT PERFORMANCE MONITORING REPORT

Responsible Officer Phil Weir

e-mail: phil.weir@shropshire.gov.uk

Tel: 01743 256113

1. Summary

The Benefits team are responsible for the recovery of Housing Benefit overpayments. This report provides Members with performance monitoring information on the collection of this income for the year to 2014/15.

2. Recommendations

Members are asked to note the report.

REPORT

1. The service is responsible for recovering amounts outstanding on invoices raised by the former district councils relating to Housing Benefit overpayments, and for debt due to Shropshire Council for the same reason, which are now recovered separately from the Sundry Debt Service.

2. With regards to Housing Benefit overpayment recovery, the total value of invoices raised in 2014/2015 is:-

Created	£3,969,891.11
Recovered	£2,792,605.46
Written off	£ 127,265.32

3. The total value of invoices raised for the period April 2015 to July 2015 is:-

Created	£1,224,688.32
Recovered	£1,091,731.23
Written off	£ 73,922.38 (awaiting authorisation)

4. At 31st July 2015 the total amount outstanding, including previous years, was £5.4 million compared with £4.3 million as at 31st July 2014. The table at Appendix A provides a detailed breakdown of this debt by financial year, and also categorises the debt between sundry debt and debt being recovered from ongoing Housing Benefit.
5. There are a number of reasons why the figure has increased in the past twelve months.
 - Shropshire Council has been required to participate in the Real Time Information (RTI) project since September 2014. This is a data matching exercise that matches earnings information between Shropshire Council and HMRC and which focusses on higher level mismatches.
 - Shropshire Council has signed up to the Fraud and Error Reduction Scheme (FERIS) since November 2014. This requires us to undertake various activity to identify fraud and error (which results in overpayments).
 - In March 2015 the Benefits Team undertook a data cleansing exercise to uprate State Retirement Pension figures manually rather than automatically as had happened in previous years. This data cleansing highlighted a number of discrepancies and identified a number of overpayments
 - There has been an increase in data matching via the Housing Benefit Matching Service (HBMS). This matches Shropshire Council and DWP data files to identify discrepancies between the two sets of records such as Income Support, JSA, Incapacity benefit and Pension Credit.
 - We are also receiving a higher volume of information via Automated Transfer to Local Authority Systems (ATLAS). This automatically loads DWP information directly into Shropshire Council's systems meaning that we are made aware of the changes more quickly
5. In order to deal with this higher level of overpayments we have taken the following action.
 - We have recently purchased additional functionality from Northgate which ensures that we are recovering overpayments at the appropriate rate. (For example, where a claim has been sanctioned or if there are income disregards we can recover at a higher rate). This functionality identifies discrepancies in our current system so we can increase our ongoing recovery rate. The recovery rates for 2015-16 are at Appendix B.
 - As part of our recent restructure HB overpayment recovery was merged with the Revenues Recovery Team to increase scope for this type of work. We are currently organising the outstanding sundry debt into meaningful enforcement stages to

easily identify what action is currently being taken in respect of each debt, and automate our enforcement procedures. These include where debt is being recovered from DWP benefit, where debt is with an enforcement agent, where there is a payment arrangement. We have also recently taken advantage of Direct Earnings Orders, which allow us to attach earnings where people are working. An officer is working through the outstanding debt and moving it to the relevant stage, or making contact with the debtor, whatever is appropriate. We are also about to pass some of our higher level debts to a Visiting Officer to make contact with the debtor to try to enter into dialogue and secure payment.

- This work is providing improved management information and is being monitored on a monthly basis by the Revenues and Benefits Service Manager, the Recovery Manager and the Benefits Manager.

REPORT

3. Risk Assessment and Opportunities Appraisal

The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998.

The targets seek to increase the number of income collections transacted electronically.

4. Financial Implications

Effective monitoring of outstanding debt will enable early action to be taken to minimise the risk of financial loss to the Council.

5. Background

Housing Benefit is a national welfare benefit administered by the Council for the Department of Work and Pensions. A complex legal framework is in place to define who is entitled to benefit and to reduce fraud and error in the system. The Benefits Service within the Council has a responsibility to pay the right benefit to the right person at the right time.

6. Additional Information

None

7. Conclusions

Members are asked to note the content of the report.

List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)

N/A

Cabinet Member (Portfolio Holder)

Mike Owen, Brian Williams, Chairman of Audit Committee

Local Member

N/A

Appendices

N/A

Appendix A – Housing Benefit Overpayment Debt Breakdown by financial year

Position as at: 31/07/15			
YEAR	TOTAL DEBT	SD	HB
2008/09	135,749.30	74,361.50	61,387.80
2009/10	636,003.00	524,344.14	111,658.86
2010/11	414,736.92	351,767.28	62,969.64
2011/12	454,831.46	340,517.51	114,313.95
2012/13	640,015.91	505,582.99	134,432.92
2013/14	883,418.79	652,627.09	230,791.70
2014/15	1,674,466.57	947,651.56	726,815.01
2015/16	615,057.09	70,700.46	544,356.63
Total	5,454,279.04	3,467,552.53	1,442,369.88

Appendix B – Recovery rates from ongoing Housing Benefit 2015-16

Standard Rate £11.10 per week

Fraud Rate £18.50 per week

Plus, in each of the above cases 50% of

- Any £5, £10, £20, or £25 earned income disregard
- Any disregard of regular charitable or voluntary payments



<u>Committee and Date</u>	<u>Item</u>
Cabinet 29 July 2015	
Audit Committee 17 September 2015	
Council 24 September 2015	<u>Public</u>

ANNUAL TREASURY REPORT 2014/15

Responsible Officer James Walton

e-mail: James.Walton@shropshire.gov.uk

Tel: (01743) 255011

1. Summary

- 1.1. The report informs members of treasury activities for Shropshire Council for 2014/15, including the investment performance of the internal treasury team to 31 March 2015. The internal treasury team outperformed their investment benchmark by 0.26% in 2014/15 and performance for the last three years is 0.38% per annum above benchmark. Treasury activities during the year have been within approved prudential and treasury indicators set and have complied with the Treasury Strategy.
- 1.2. During 2014/15 the performance of the Treasury Team delivered an under spend of £0.673 million compared to budget as highlighted in paragraph 10.5 of this report. This under spend helped the Council to achieve an overall under spend at the end of the financial year.

2. Recommendations

- 2.1. Members are asked to accept the position as set out in the report.

REPORT

3. Risk Assessment and Opportunities Appraisal

- 3.1. The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998.
- 3.2. There are no direct environmental, equalities or climate change consequences arising from this report.
- 3.3. Compliance with the CIPFA Code of Practice on Treasury Management, the Council's Treasury Policy Statement and Treasury Management Practices and the Prudential Code for Capital Finance together with the rigorous internal controls will enable the Council to manage the risk associated with Treasury Management activities and the potential for financial loss.

4. Financial Implications

- 4.1. The Council makes assumptions about the levels of borrowing and investment income over the financial year. Reduced borrowing as a result of capital receipt generation, or delays in delivery of the capital programme will both have a positive impact of the council's cash position. Similarly, higher than benchmarked returns on available cash will also help the Council's financial position. For monitoring purposes, assumptions are made early in year about borrowing and returns based on the strategies agreed by Council in the preceding February. Performance outside of these assumptions result in increased or reduced income for the Council.
- 4.2. The 2014/15 performance is above benchmark for the reasons outlined in paragraph 10.5 of this report and has delivered additional income of £0.673 million which has been reflected in the final Revenue Monitor report for 2014/15.

5. Background

- 5.1. The Council defines its treasury management activities as "the management of the authority's investments and cash flows, its banking, money market and capital market transactions, the effective control of the risks associated with those activities, and the pursuit of optimum performance consistent with those risks".
- 5.2. The Council is required through regulations issued under the Local Government Act 2003 to produce an annual treasury report reviewing treasury management activities and the actual prudential and treasury indicators for 2014/15. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code for Capital Finance in Local Authorities.
- 5.3. Changes in the regulatory environment place a much greater onus on members for the review and scrutiny of treasury management policy and activities. Minimum reporting requirements are that the Council should receive the following reports:
 - An annual treasury strategy in advance of the year.
 - A mid-year treasury update report.
 - An annual report following the year describing the activity compared to the strategy.
- 5.4. The CIPFA Code of Practice on Treasury Management states that these reports should be scrutinised by a nominated committee and members should be trained on treasury management activities in order to support them in their scrutiny role. These reports were scrutinised by the Audit Committee before they were reported to full Council for approval. Members have also received training on treasury management issues to support their scrutiny role by completing the CIPFA treasury management self-assessment and further Member training has been undertaken in conjunction with our Treasury Advisor, Capita Asset Services.

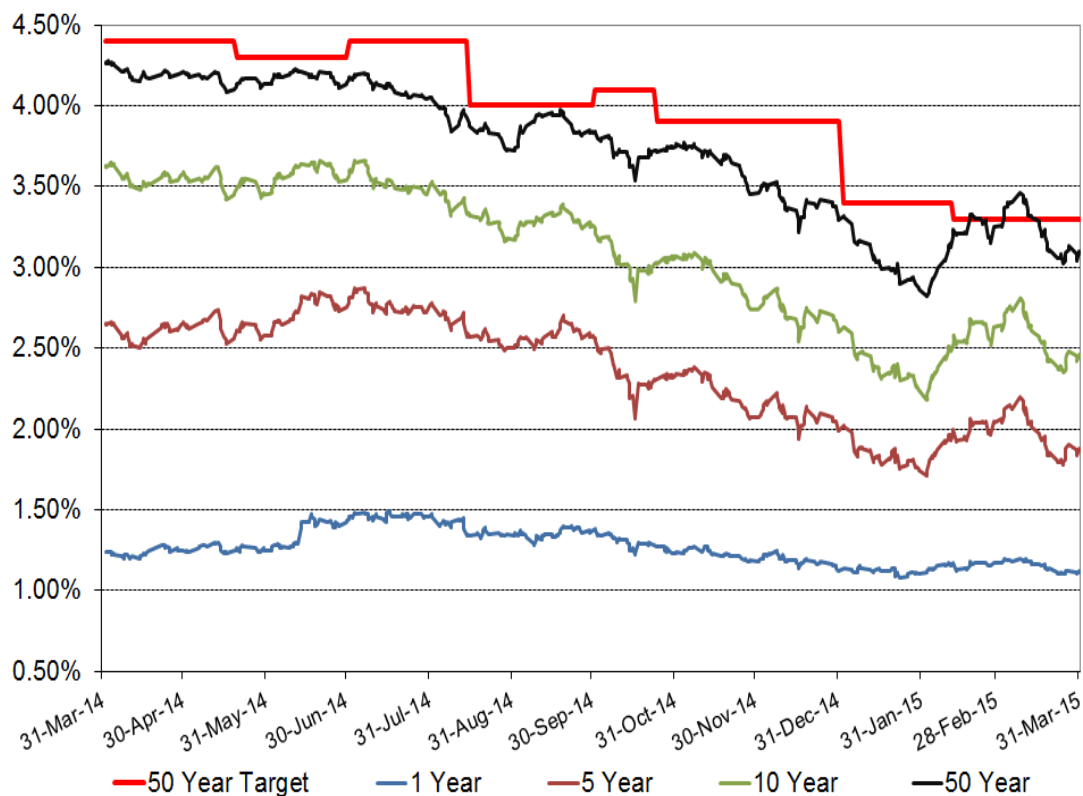
- 5.5. In addition to the minimum reporting requirements, the Director's and Cabinet also receive quarterly treasury management update reports for information.
- 5.6. The Treasury Strategy for 2014/15 was approved by Council in February 2014, the mid-year treasury update report was approved by Council in December 2014. This Annual Report sets out our actual treasury performance for the year and shows how the actual treasury performance varied from our estimates and planning assumptions.

6. Borrowing Strategy for 2014/15

- 6.1. The Council did not have a borrowing requirement for 2014/15 to 2016/17 but based on the prospects for interest rates outlined in the Treasury Strategy if circumstances changed the Council would adopt a pragmatic approach when considering any new borrowing.
- 6.2. Short term Public Works Loan Board (PWLB) rates were expected to be significantly cheaper than longer term borrowing rates during the year therefore borrowing in the 10 year period early on in the financial year when rates were expected to be at their lowest would be considered. Variable rate borrowing was also expected to be cheaper than long term fixed rate borrowing throughout the year.
- 6.3. An alternative strategy was to defer any new borrowing as long term borrowing rates were expected to be higher than investment rates during the year. This would maximise savings in the short term and also have the added benefit of running down investments which would reduce credit risk. Short term money market borrowing was not used during the year.

7. Borrowing outturn for 2014/15

- 7.1. The Treasury Team take advice from its external treasury advisor, Capita Asset Services, on the most opportune time to borrow. Movements in rates during 2014/15 are shown in the graph below.



- 7.2. Members have previously been advised of the unexpected change of policy on PWLB lending arrangements in October 2010 following the Comprehensive Spending Review. This resulted in an increase in all new borrowing rates of between 0.75 – 0.85%, without an associated increase in early redemption rates. This made new borrowing more expensive and repayment relatively less attractive.
- 7.3. The table below shows PWLB borrowing rates for a selection of maturity periods. The table also shows the high and low points in rates during the year, average rates during the year and individual rates at the start and the end of the financial year.

	4.5 – 5yrs	9.5 – 10yrs	24.5 – 25 yrs	49.5 – 50 yrs
01/04/2014	2.65%	3.63%	4.29%	4.27%
31/03/2015	1.86%	2.45%	3.11%	3.08%
High	2.87%	3.66%	4.30%	4.28%
Low	1.71%	2.18%	2.85%	2.82%
Average	2.36%	3.08%	3.74%	3.72%
High date	03/07/2014	20/06/2014	03/04/2014	02/04/2014
Low date	02/02/2015	02/02/2015	02/02/2015	02/02/2015

- 7.4. Following discussions with Capita, as general fund borrowing rates were significantly higher than investment rates during the year it was agreed that if any new borrowing was required during the year it would be deferred in order to maximise savings in the short term and reduce credit risk by reducing investments. Due to a review of the Capital Programme no new external borrowing was required in 2014/15.

- 7.5. The Council's total debt portfolio at 31 March 2015 is set out below:-

Type of Debt	Balance £m	Average Borrowing Rate 2014/2015
General Fund Fixed rate – PWLB	205.22	5.55%
HRA Fixed rate - PWLB	83.35	3.51%
Fixed rate – Market	49.20	4.10%
Variable rate	0	N/A

- 7.6. The maturity profile of the debt is evenly spread to avoid large repayments in any one financial year. The average debt period for PWLB loans is 19 years, market loans have an average debt period of 56 years. The total debt portfolio has a maturity range from 1 year to 63 years.
- 7.7. The Treasury Strategy allows up to 15% of the total outstanding debt to mature in any one year. It is prudent to have the Council's debt maturing over many years so as to minimise the risk of having to re-finance when interest rates may be high. The actual debt maturity profile is within these limits (Appendix A).

8. Debt rescheduling

- 8.1. No debt restructuring was undertaken during 2014/15. The introduction of a differential in PWLB rates on the 1 November 2007, which was compounded further since a policy change in October 2010 as outlined above, has meant that large premiums would be incurred if debt restructuring was undertaken which cannot be justified on value for money grounds.
- 8.2. Although these changes have restricted debt restructuring, the current debt portfolio is continually monitored in conjunction with external advisers in the light of changing economic and market conditions to identify opportunities for debt rescheduling. Debt rescheduling will only be undertaken:
- To generate cash savings at minimum risk.
 - To help fulfil the Treasury Strategy.
 - To enhance the balance of the long term portfolio by amending the maturity profile and/or volatility of the portfolio.

9. Investment Strategy for 2014/15

- 9.1. Our treasury advisor originally felt when the strategy was approved by Council in February 2014 that the bank rate would remain at its historically low level of 0.50% throughout the year with the first rise to 0.75% not expected until June 2016. During the year their interest rate forecast was reviewed and their updated forecast was approved by Council in December 2014 as part of the mid-year report. Their revised forecast was that the bank rate would remain at 0.50% until June 2015.
- 9.2. In 2014/15 investment of surplus cash was managed by the internal treasury team. The strategy for the in-house team was influenced by the need to keep funds relatively short for cash flow purposes. Lending continued to be

restricted to UK banks, one overseas bank, one Building Society, Nationalised and Part Nationalised Banks, UK Government and other Local Authorities in line with the Council's policy on creditworthiness which was approved in the Annual Investment Strategy.

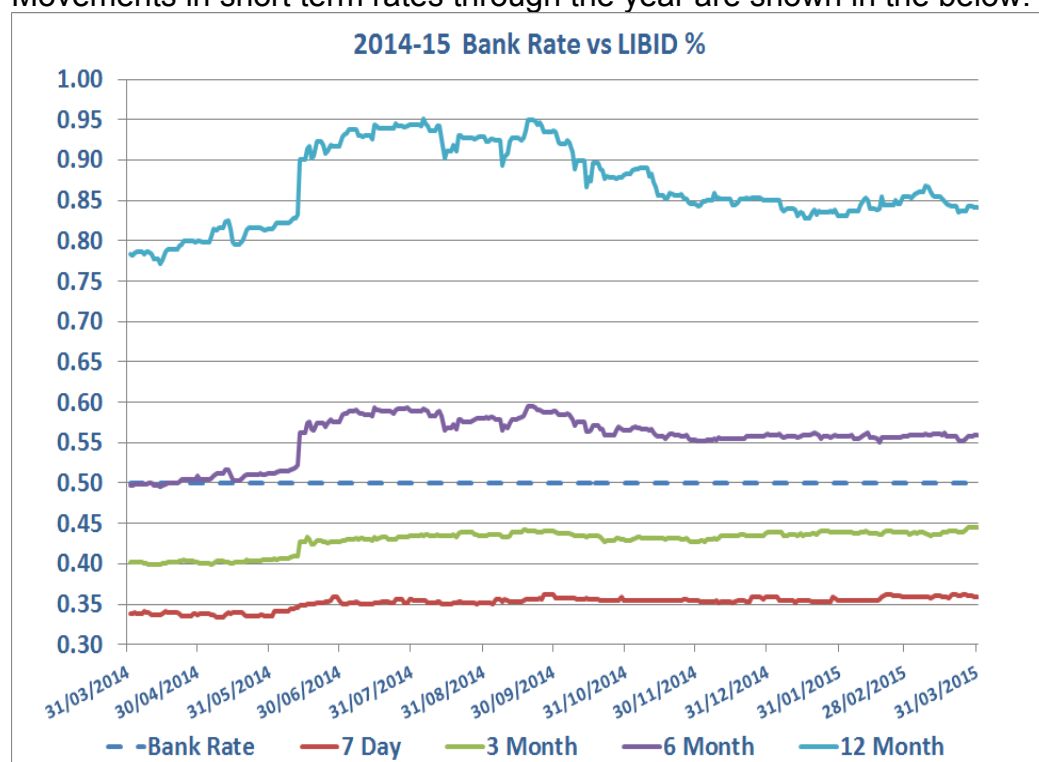
10. Investment outturn 2014/15

10.1 Bank rate remained at its historic low of 0.5% throughout the year, it has now remained unchanged for six years. Deposit rates remained depressed during the whole year, primarily due to the effects of the Funding for Lending Scheme.

10.2 The Funding for Lending Scheme, announced in July 2012, has resulted in a flood of cheap credit being made available to banks and this has resulted in money market investment rates falling drastically in the second half of 2012 and continuing into 2014/15.

10.3 To counter the historically low investment rates, and following advice from Capita, use was made of direct deals with main UK banks which were part nationalised for various periods from three months to one year. Direct deals offered substantially enhanced rates over the equivalent rates available through brokers. This provided opportunities to lock into higher, long term rates at times when it was thought they offered substantial enhancement over short term benchmark rates. Due to the enhanced market rates over bank rate this resulted in the total portfolio outperforming the benchmark. Continued use of instant access accounts with Natwest, HSBC and Svenska Handelsbanken was also used as these accounts offered both instant access to funds and paid a rate which was higher than placing short term deposits through brokers.

10.4 Movements in short term rates through the year are shown in the below.



10.5 Throughout the year the level of interest rates and average investment balances were higher than budgeted. This resulted in the internal treasury team achieving a higher level of interest on revenue balances than budgeted. This surplus was in addition to an under-spend on debt charges due to no long term general fund borrowing being undertaken in 2014/15. The total £0.673 million under spend helped the Council to achieve an overall under spend at the end of the financial year.

10.6 At 31 March 2015 the allocation of the cash portfolio was as follows:

	£m
• In-house short dated deposits for cash flow management	54.7
• In-house long dated deposits (up to 1 year)	26.2
• Other Local Authorities	29.0
Total	109.9

10.7 The following table shows the average return on cash investments for the internal treasury team during the year and for the last 3 years to 31 March 2015. Recognising the need to manage short term cash flow requirements, the target for the internal team is the Local Authority 7 day deposit rate.

	Return 2014/15	Return 3 years to 31 March 2015
	%	% p.a
Internal Treasury Team	0.58	0.68
Benchmark (Local Authority 7 Day LIBID rate)	0.32	0.30

10.8 The conclusions to be drawn from the table are:

- During 2014/15 the internal treasury team outperformed their benchmark by 0.26%.
- Over the 3 year period the internal team's performance has been 0.38% per annum above the benchmark.

11. Compliance with Treasury Limits and Prudential Indicators

11.1 All borrowing and lending transactions undertaken through the year have complied with the procedures and limits set out in the Council's Treasury Management Practices and Treasury Strategy. In addition, all investments made have been within the limits set in the approved counterparty list. No institutions, in which investments were made, showed any difficulty in repaying investments and interest in full during the year.

11.2 Appendix B shows the Prudential Indicators approved by Council as part of the 2014/15 and 2015/16 (revised estimate) Treasury Strategies compared with the actual figures for 2014/15. In summary, during 2014/15 treasury activities have been within the prudential and treasury limits set in the Treasury Strategy.

List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)

Council, February 2014, Treasury Strategy 2014/15.

Council, December 2014, Treasury Strategy 2014/15 Mid-Year Review.

Council, February 2015, Treasury Strategy 2015/16.

Cabinet, July 2014, Treasury Management Update Quarter 1 2014/15.

Cabinet, December 2014, Treasury Management Update Quarter 2 2014/15.

Cabinet, February 2015, Treasury Management Update Quarter 3 2014/15.

Cabinet, June 2015, Treasury Management Update Quarter 4 2014/15.

Cabinet Member:

Mike Owen, Portfolio Holder

Local Member

N/A

Appendices

A. Debt Maturity Profile as at 31 March 2015

B. Prudential Indicators 2014/15

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APPENDIX B

SHROPSHIRE COUNCIL PRUDENTIAL INDICATORS 2014/15

- C1. The Prudential Code requires the Council to set Prudential Indicators in the Treasury Strategy and report performance against those indicators in the Annual Treasury Report.
- C2. The ratio of financing costs compared to the net revenue stream of the Council was lower than expected in 2014/15 due to no general fund borrowing being undertaken during the year.

Prudential Indicator	2014/15 Revised Estimate	2014/15 Actual
	%	%
Non HRA Ratio of financing costs to net revenue stream	10.6	9.3

Prudential Indicator	2014/15 Revised Estimate	2014/15 Actual
	%	%
Non HRA Ratio of financing costs (net of investment income) to net revenue stream	10.3	9.0
HRA Ratio of financing costs to HRA net revenue stream	41.9	40.9

- C3. The cost of capital investment decisions funded from a re-direction of existing resources was lower than anticipated due to a revised 2014/15 capital programme and the active programme to generate additional capital receipts to reduce the requirement for prudential borrowing to finance the capital programme as reported in the monthly capital monitoring reports.

Prudential Indicator	2014/15 Estimate	2014/15 Actual
Estimates of impact of Capital Investment decisions in the present capital programme	£ p	£ p
Cost of capital investment decisions funded from re-direction of existing resources (Council Tax Band D, per annum)	25.81	17.69
Cost of capital investment decisions funded from increase in council tax (Council Tax Band D, per annum)	0	0
Cost of capital investment decisions funded from increase in average housing rent per week	0	0
Total	25.81	17.69

C4. It can be seen from the tables that the authority was well within the approved authorised limit and the operational boundary for external debt for 2014/15.

Prudential Indicator	2014/15 Estimate	2014/15 Actual
External Debt	£ m	£ m
Authorised Limit:		
Borrowing	454	338
Other long term liabilities	20	23
Total	474	361

Prudential Indicator	2014/15 Estimate	2014/15 Actual
External Debt	£ m	£ m
Operational Boundary:		
Borrowing	408	338
Other long term liabilities	20	23
Total	428	361

C5. Gross borrowing was as anticipated due to no general fund borrowing being undertaken in 2014/15. A key indicator of prudence is that net borrowing should not exceed the capital financing requirement. It can be seen from the following figures that the Council continues to meet this prudential indicator. The Capital Financing Requirement was lower than estimated following slippage in the capital programme that resulted in a reduced financing requirement from the capital receipts previously set-aside as approved by Council.

Prudential Indicator	2014/15 Revised Estimate	2014/15 Actual
Net Borrowing & Capital Financing Requirement:	£ m	£ m
Gross Borrowing (inc HRA)	338	338
Investments	90	110
Net Borrowing	248	228
Non HRA Capital Financing Requirement	256	241
HRA Capital Financing Requirement	85	85
Total CFR	341	326

C6. Total capital expenditure during the year was lower than anticipated. Explanations for these under-spends were included in the 2014/2015 final capital outturn report.

Prudential Indicator	2014/15 Revised Estimate	2014/15 Actual
	£ m	£ m
Non HRA Capital expenditure	56	45
HRA Capital expenditure	10	9

C7. The level of fixed rate and variable rate borrowing were within the approved limits for the year.

Prudential Indicator	2014/15 Estimate	2014/15 Actual
	£ m	£ m
Upper Limit For Fixed/Variable Rate Borrowing		
Fixed Rate (GF)	408	253
Fixed Rate (HRA)	96	85
Variable Rate	204	0

C8. The level of fixed rate and variable rate investments were within the approved limits during 2014/15.

Prudential Indicator	2014/15 Estimate	2014/15 Actual
	£ m	£ m
Upper Limit For Fixed/Variable Rate Investments		
Fixed Rate	200	79
Variable Rate	200	31

C9. No investments over 364 days were held by the internal treasury team.

Prudential Indicator	2014/15 Estimate	2014/15 Actual
	£m	£m
Upper Limit For Sums Invested over 364 days		
Internal Team	40	0
External Manager	30	0

C10. The maturity profile was within the limits set in the Treasury Strategy.

Prudential Indicator	2014/15 Upper Limit	2014/15 Actual
	%	%
Maturity Structure of External Borrowing		
Under 12 months	15	3
12 months to 2 years	15	1
2 years to 5 years	45	5
5 years to 10 years	75	7
10 years to 20 years	100	26
20 years to 30 years	100	22
30 years top 40 years	100	17
40 years to 50 years	100	10
50 years and above	100	9

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<u>Committee and Date</u>	<u>Item</u>
Audit Committee – 17 th September 2015	

RISK & INSURANCE ANNUAL REPORT 2015

Responsible Officer Angela Beechey

e-mail: Angela.beechey@shropshire.gov.uk

Tel: (01743)
252073

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252858

1. Summary

- 1.1 This report sets out the challenges and achievements accomplished by the Risk Management Team during 2014/2015 which has again seen an intense and varied workload.
- 1.2 The team continues to strive to ensure that Shropshire Council embeds opportunity risk management practices throughout all service areas and this is recognised by the reputation held by Shropshire Council within the risk and insurance market.

2. Recommendations

- 2.1 Members are asked to accept the position as set out in the report.

REPORT

3. Risk Management and Opportunities Appraisal

- 3.1 The management of risk is a key process which underpins the successful achievement of our priorities and outcomes. It forms part of the Annual Governance Statement and the Risk Management Team ensures that processes and protocols are established and embedded which support effective decision making.
- 3.2 Insurance is an effective method of risk transfer and a balance of self insurance and third party insurance is used based on our risk appetite.

4. Financial Implications

- 4.1 Failure to effectively manage the risks associated with meeting the on-going and additional austerity measures will potentially leave the Council exposed to external challenge and financial ramifications.
- 4.2 Through the purchase of an insurance policy the large financial risks are transferred.

5. Background

- 5.1 This year saw the Audit Team undertake an audit of risk management and the final report identified the assurance level as “**Reasonable**” with two recommendations, one significant and the other best practice. The significant recommendation was in respect of the monitoring of operational risks and this is discussed later in this report. The best practice recommendation related to

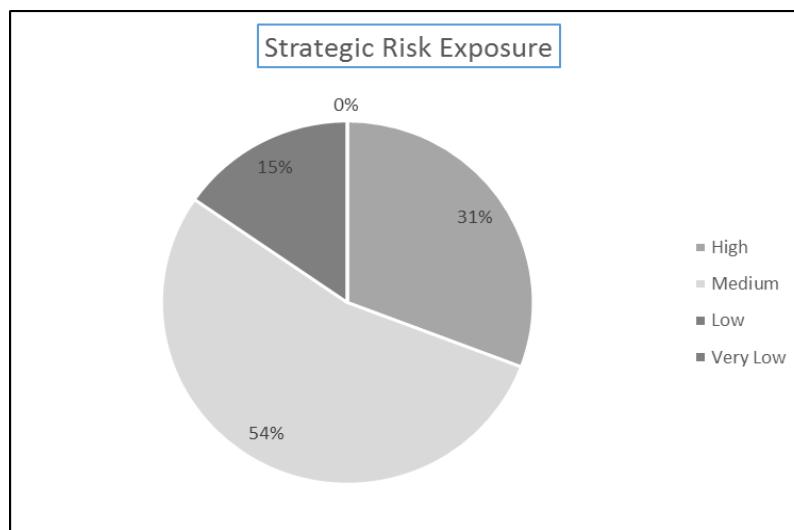
the consideration of a bespoke Risk Management software package. However, this will not take place in the foreseeable future due to cost and also the lack of any appropriate and robust software package being available.

- 5.2 The Opportunity Risk Management Strategy, which supports our rapidly changing environment, has now been fully embedded by the Risk Management Team throughout the council. We need to ensure that we are taking advantage of every opportunity possible and the strategy is therefore outcome based and focuses on the achievement of our key priorities, objectives and benefits realisation.
- 5.3 This year also saw the end of our broker contract and a tender exercise was undertaken to enable a new broker contract to be awarded.

6. Additional Information – Risk Management

6.1 Strategic Risk Management

- 6.1.1 Throughout 2014/2015 our strategic risks were reviewed on a monthly basis ensuring that the level of risk exposure was monitored closely in our rapidly changing environment.
- 6.1.2 Each key officer, senior manager and director was met with monthly to review and update their strategic risk exposure, including the Chief Executive. The final update was then shared with both the Chief Executive and the portfolio holder for Resources & Support before being reported to Director's and Informal Cabinet.
- 6.1.3 We are currently in an ever changing landscape and we are constantly striving to ensure that risk management adapts to best support Members and Officers. A new strategic risk register template has therefore been drafted which supports the direction of travel developed by directors and this will be implemented throughout 2015/2016.
- 6.1.4 As a result of the focus on ICT resilience as one of our highest strategic risks, a large amount of work has been undertaken with the formation of a project group to move the agenda forward in order to provide assurances to the Council of increased levels of resilience. The Risk Management Officer is part of the project group and this work will continue throughout 2015/2016.
- 6.1.5 All relevant strategic risks have been linked to the Annual Governance Statement Action Plan points. This demonstrates that we are managing these Action Points at a strategic level.
- 6.1.6 The following diagrams demonstrate our current overall strategic risk exposure:-



6.2 Operational Risks

6.2.1 Operational risks were historically maintained in the PerformancePlus system and modified directly into the system by risk owners. It became clear that the reporting functionality was not fit for purpose and as a result there was slippage in the risk owners regular updates. This resulted in the 'significant' recommendation within the Audit Report as mentioned earlier.

6.2.2 As a result of our concerns and ratified by the Audit Recommendation "*The Risk Management Team should introduce the new operational risk monitoring process as soon as possible to address the issue of operational risks not being reviewed in a timely manner and to ensure that appropriate reporting processes are in place for Heads of Service/Directors*", a new process for the management of operational risk and robust reporting has been implemented.

6.2.3 Operational risks are kept within one spreadsheet for each Head of Service. All risk owners update this on a quarterly basis (April, July, October, January). The data held within this is then analysed. All medium and high risks are considered above our tolerance levels - this does not mean to say that they are unacceptable but that the monitoring of risks at this level will be closely carried out to ensure that the council is not exposed. Therefore we focus on risks above these tolerance levels in the report that is provided to Heads of Service and Directors. Following the provision of these reports a final summary report is presented by the Section 151 Officer to Directors.

6.2.4 This change has raised awareness at Head of Service and Director level of current operational risk exposure and any emerging themes that need to be addressed at this level. It has enabled pro-active operational risk dialogue and challenge between Directors, Heads of Service and Service Managers.

6.2.5 To support the implementation of the new process all operational risk owners have been invited to facilitated risk workshops which briefs them on the background to the Opportunity Risk Management Strategy and the methodology to enable them to robustly manage their operational risks. The workshop also enables all risk owners to update their operational risks with support on hand.

6.3 Business Continuity Management

6.3.1 With the many changes occurring within the council, Business Continuity Management arrangements are constantly reviewed to ensure that we have relevant skilled personnel on the emergency response teams and that these people are trained appropriately.

6.3.2 During the latter part of 2014 and early part of 2015 an extensive piece of work was undertaken by the Risk Management team to support services in the review and redevelopment of their Service Recovery Plans. This was in the form of desktop scenario exercises with every Head of Service and their management teams to highlight issues should we have ICT failure during, or out of, office hours. This resulted in robust Service Recovery Plans being developed for every service area across the Council.

6.3.3 This year has seen us working intensively with ICT colleagues to support the management of ICT Disaster Recovery and Business Continuity arrangements. This has resulted in project teams for key activities being formed and regular risk workshops being undertaken.

6.4 Emergency Response & Business Recovery Plan for Schools

6.4.1 This year saw the completion and provision of the Emergency Response & Business Recovery Plan template for schools to adapt and adopt. The plan was developed collaboratively with colleagues in the Emergency Planning Unit with input from a Task and Finish Group through the Central Policy Group, Head Teachers Forum and School Development Groups. The draft plan was tested for robustness through desktop exercises and the completed template provided to all schools during the Spring Term of 2015. Two versions of the plan were developed, one for maintained schools and one for academy schools. The plan has been provided to every school free of charge including academies.

6.4.2 To support schools in the completion of this plan every school was invited to attend a workshop which explained each section of the plan and enabled schools to complete their plan with support on hand to answer any particular queries they may have. 139 people attended the training representing 105 schools. There was a small charge made for academies to attend this training.

6.4.3 Additional workshops may be provided in the future to support schools' emergency response teams to test their plans and also to provide loggist training.

6.4.4 The feedback from this undertaking has been exceptionally positive with schools appreciative of a workable template developed by people with the right subject matter expertise to not only develop it but to deliver training which supports schools in the completion of the plan. This approach has ensured that every Shropshire School has access to a supported plan and that we have a consistent approach being adopted by all our schools.

6.4 Opportunity Risk Management Strategy

6.4.1 During 2014/2015 we have continued to share our strategy nationally and have again presented at the Alarm Learning & Development National Forum and also at Alarm regional forums.

6.4.2 We have again had an article published in the Public Risk Management Magazine resulting in further enquiries from different public sectors bodies this year including:

Leicester City Council
Mendip Borough Council
CIPFA
Lincolnshire County Council
Cumbria County Council
Dartford & Sevenoaks
Solihull Metropolitan Borough Council

6.5.3 This year has seen Jane Cooper, Risk Management Officer, successfully short listed as one of three finalists for Alarm Professional of the Year.

6.6 Project Risk Management

6.6.1 We have, and continue to support key projects that are currently underway. These include the transition of Fulcrum, Help2Change and Inspire to Learn to ip&e. Other key projects that we have or continue to support include; Quarry Swimming Pool Project, Implementation of the Care Act, University Centre Shrewsbury, ICT Disaster Recovery & Business Recovery Project, Key Systems hosting solutions and the Emstrey Inquiry Working Group.

6.6.2 Most of the projects commence with an opportunity risk workshop to develop a robust register. This enables these to be reviewed and updated at project team meetings with key officers taking responsibility to manage specific areas of risk. The direction of travel for projects is monitored to ensure that risks are well managed preventing delays to project plans or timescales.

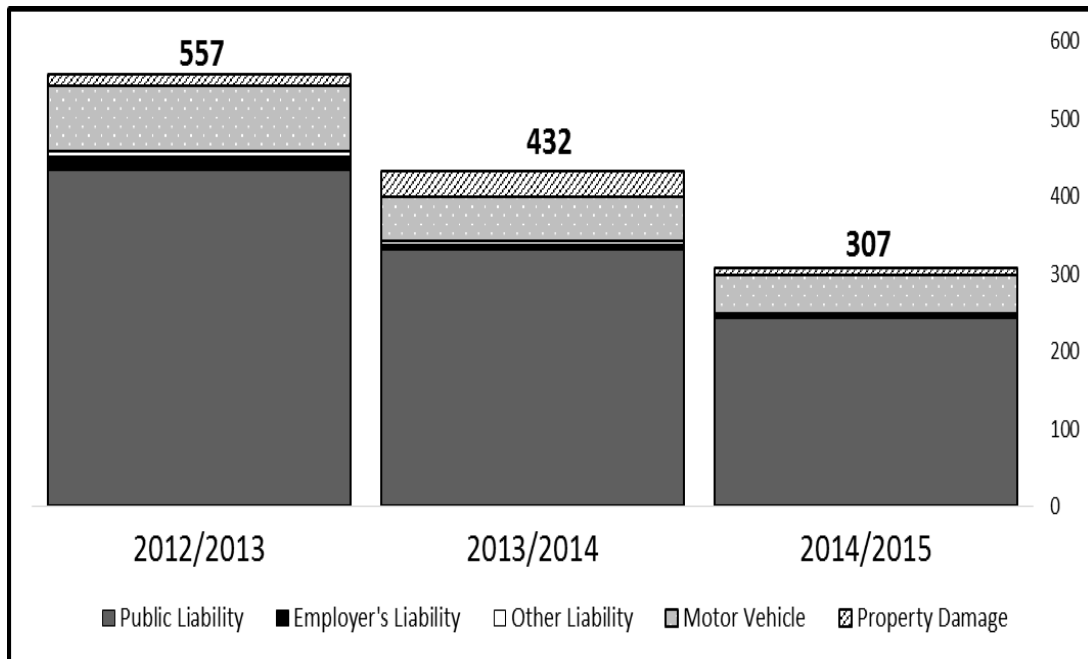
6.7 Audit Team Collaborative Working

6.7.1 We continue to work closely and collaboratively with Audit Team colleagues, supporting the undertaking of the risk based audit plan meetings on an annual basis with the Audit Services Manager. This ensures that the process is cross referenced with our strategic and business plan objectives and risk exposure.

7. Additional Information – Insurance

7.0.1 We received 307 claims against the 2014/2015 policy year, a reduction of 29% compared to the previous year. This is mainly due to the reduction in the number of Public Liability claims notified (down from 332 to 243) as a result of a much milder winter and additional funding being made available to maintain the highway. In addition we have seen a reduction in Property claims notified (down from 32 to 8) as storm weather conditions experienced in the early part of 2013/2014 were fortunately not repeated in 2014/2015.

Illustration 1 - Comparison of claims received year on year



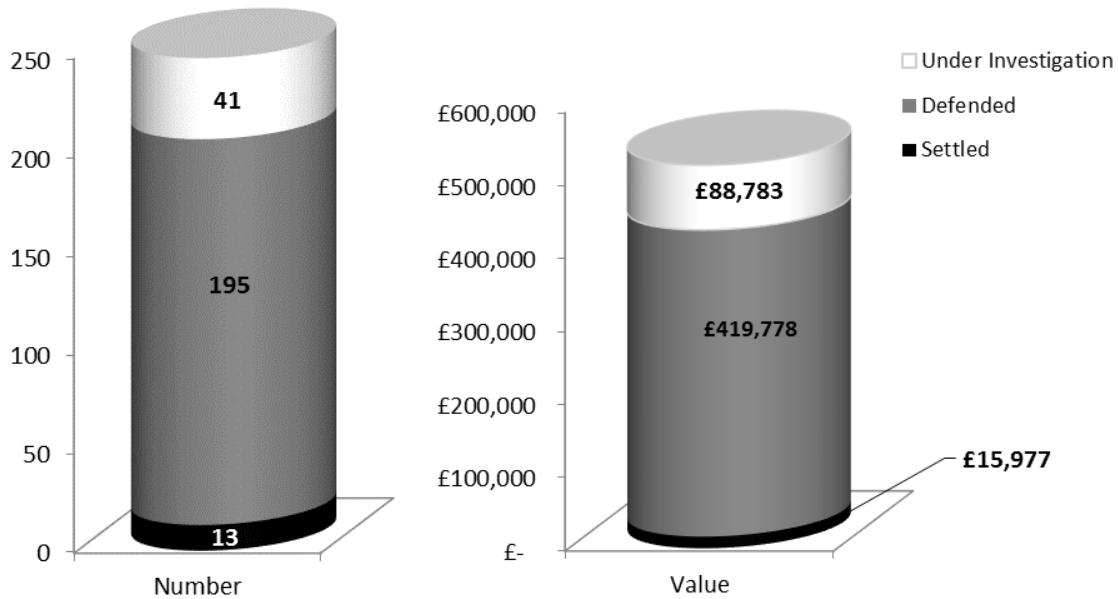
7.1 All Liability Claims

7.1.1 Liability claims represent 249 of all claims received in 2014/2015. This means an allegation of negligence is being made against the Council. A liability decision has been reached on 208 of these claims, with 195 (93.7%) being repudiated (ie turned down).

7.1.2 The good work carried out by Shropshire Council staff is again proven by the cost we could have incurred if repudiated claims had been paid. In 2014/2015 savings of £419,778 were achieved against defended Liability claims. Over the last three year period, these savings amount to over £2.7m.

- 7.1.3 It is pleasing to note that our repudiation rate for liability claims at 93.7% remains well above the industry average of 79.7%.
- 7.1.4 Just 13 of the claims received have been accepted, with a combined expected cost once fully settled of just £15,977. The remaining 41 claims (with reserves of £88,783 attached) remain under investigation at the present time.

Illustration 2 - Comparison of those claims accepted and those defended



7.2 Public Liability claims

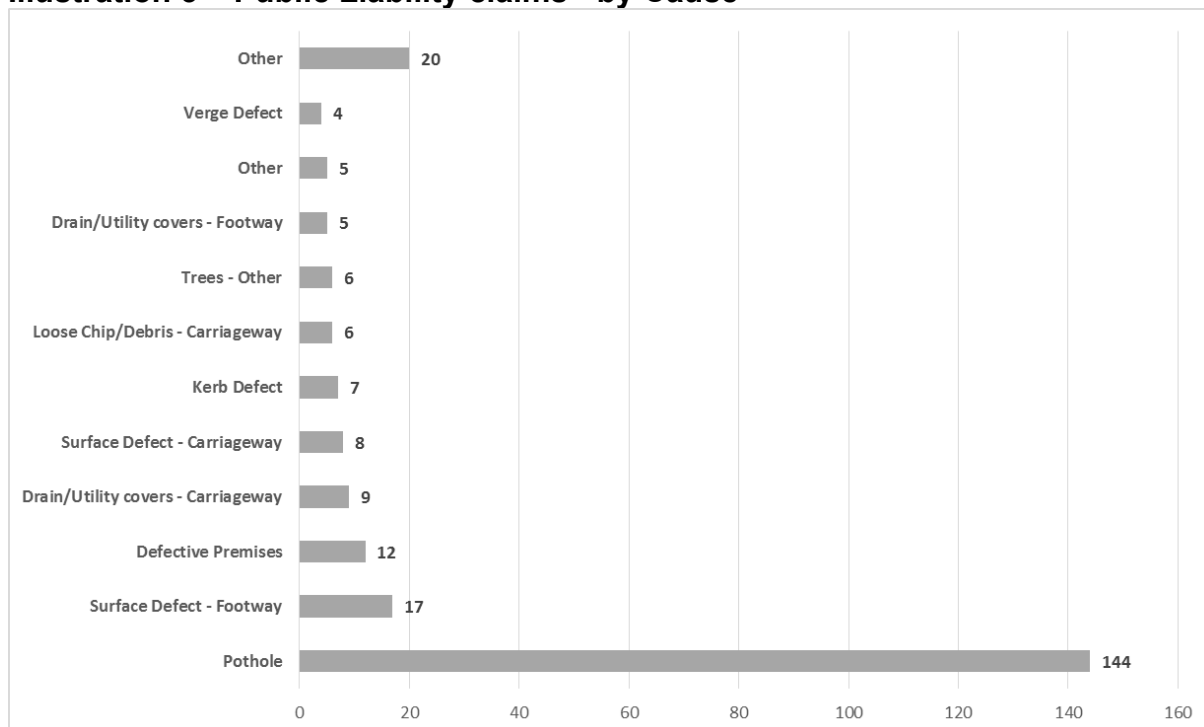
7.2.1 Of the 2014/2015 Public Liability claims received, 85.2% (207 claims) have arisen through Highways Maintenance incidents with the majority of these claims as a result of potholes on the carriageway.

7.2.2 The current repudiation rate for Highways Maintenance claims is 95.4% - again this is well above the industry average of 84.2%.

7.2.3 Of the 165 Highways claims repudiated, we expect to achieve savings of approximately £252,000 which would have been incurred in defending these claims. The main reason that we are able to successfully defend claims is because there is a Section 58 defence under the Highways Act - we can demonstrate that we have an adequate system of inspection in place, or we had no knowledge of the defect prior to the incident (but took action as soon as we were put on notice).

7.2.4 Liability has been accepted against just eight of the Highways claims against the 2014/2015 policy year, at an expected cost of £7,518.

Illustration 3 – Public Liability claims - by Cause



7.3 Employers Liability claims

7.3.1 We continue to receive a low number of Employers' Liability (EL) claims, with six claims being received during 2014/2015. The number has fallen from 16 in 2012/2013, but increased slightly compared to the five claims received in 2013/2014. It should be noted that EL claims often take a number of years to be received and there is the potential for an increase on the claims against 2014/2015 in the future.

7.3.2 Of the 2014/2015 EL claims, three relate to schools and one to each of Safeguarding, Day Services and Environment. The claims include one fall, a slip/trip, a manual handling incident and an alleged assault at a school.

7.3.3 At this time, two of the claims remain under investigation, whilst the other four have been repudiated. The expected saving against the repudiated claims is £46,378.

7.4 Other Liability claims

7.4.1 It is pleasing to note that we have received no claims of this nature against the 2014/2015 policy year. Last year we received six Officials Indemnity claims – however liability has not been accepted against any of these claims to date.

7.5 Motor claims

- 7.5.1 During 2014/2015 we received a total of 50 motor claims, a significant reduction on the two previous years. The main reason for this is the outsourcing of various Services such as West Mercia Supplies and Street Scene.
- 7.5.2 Just over half (27) of the claims received involve our own vehicle only (no Third Party involvement), making up 54% of all motor claims received in 2014/2015
- 7.5.3 Of the 23 claims involving a Third Party, we have accepted fault in 13 cases and payments made against these claims total £9,150. Two Third Party drivers reported whiplash injuries and in both cases we were successful in proving that the third party was at fault and as such recovered our own repair costs.
- 7.5.4 The main reason for motor claims (accounting for 34% of those received in 2014/2015) are incidents involving misjudgement/manoeuvring of vehicles.

7.6 Property claims

- 7.6.1 During 2014/2015 we received just eight Property claims – much less than the 32 received against 2013/2014. The main reason for the high number of claims last year was the storm weather conditions that hit Shropshire in February 2014. This resulted in extensive damage across the county – with numerous trees down and roofs blown off. Fortunately, we did not see a repeat to the same extent in 2014/2015.
- 7.6.2 Included within the eight claims received in 2014/2015 is a claim valued at £33,100. This relates to Storm damage in October 2014, which caused extensive damage to the roof of one of our schools. The average value of the other seven claims is just £441. This includes two claims for Theft, two claims for malicious damage, one for lightening damage and one relating to a burst pipe.

7.7 Current exposure

- 7.7.1 We currently have 235 open claims with reserves of £3.1m attached. Whilst this report so far has focused on claims against the 2014/2015 policy year, it is important to remember that claims can continue to be received against old policy years – we have had a number of claims going back as far as the early 1970's. These normally relate to Employers Liability claims as shown in illustration 4 below. We currently have open 30 Employers Liability claims, of which 12 are disease related claims with reserves of just under £110,000. Eight are for noise related injuries and four for vibration white finger.
- 7.7.2 The majority of open claims are of a low value with 36% (85 claims) being valued at less than £1,000. This is because the majority of claims we receive relate to vehicle damage caused by the highway conditions. A further 54% (127 claims) are valued between £1,000 and £25,000. Whilst 36% of the number of claims are valued under £1,000, the combined value of these claims (£23,000) represents just 1% of the overall reserve.

Illustration 4 – Open Employers Liability claims by Policy Year

Employer's Liability	Number of claims	Value (£)
1969/1970	1	10,000
1973/1974	3	27,000
1974/1975	1	11,500
1975/1976	1	2,016
1979/1980	1	10,728
1980/1981	1	2,702
1982/1983	1	10,000
1985/1986	1	15,000
1987/1988	1	14,999
2005/2006	1	6,000
2009/2010	1	16,100
2010/2011	2	202,000
2011/2012	2	67,238
2012/2013	7	532,350
2013/2014	2	10,830
2014/2015	4	42,083
Total	30	980,546

7.7.3 We have just six claims that are valued above £100,000 – the combined reserves of these claims being £1.36m. Liability is denied against all six claims. One of these claims, with a value of £375,000 was successfully defended at Court and we are in the process of recovering our costs.

7.7.4 Of the 235 claims open, 46% have been repudiated (109 claims) and as such the £4.16m reserved against these claims is not likely to be paid. Of course there will be dispute over this which will result in legal action (and increased costs in some areas). 76 claims remain under investigation at present and 99 claims have been accepted and we are negotiating settlement. The value of the accepted claims being approximately £251,600.

Illustration 5 – Open claims by detailed status

By Policy Year	No.	Value (£)
Liability Accepted	50	£ 251,574
Repudiated	109	£ 2,162,721
Under Investigation	76	£ 693,012
Total	235	£ 3,107,307

7.8 Municipal Mutual Insurance (MMI) Clawback

- 7.8.1 Last year we reported that as MMI were no longer able to foresee a solvent run off, the Scheme of Arrangement was implemented and a levy was applied to creditors in early 2014 resulting in a payment by Shropshire Council of £834,000.
- 7.8.2 There has been no notification that another levy will be applied any time soon, however the Year ended 30 June 2015 Annual Accounts for MMI are eagerly awaited to ascertain the state of the current financial position and therefore the likelihood that we could be faced with a further payment in 2016.
- 7.8.3 As the MMI years relate to the old Shropshire County days before the Telford & Wrekin split, the above payments are split between Shropshire Council and Telford & Wrekin.

7.9 Insurance Broker Contract

- 7.9.1 This year saw the end of our Broker contract with Marsh Brokers Ltd. Whilst we could have considered extending the contract with Marsh, we felt that the broker market was especially competitive and following areas of dissatisfaction with our current broker, we opted to go out to tender.
- 7.9.2 A significant amount of interest was shown with nine firms requesting tender documents. This included three local firms but unfortunately they did not submit a tender.
- 7.9.3 Following completion of the tender process we have appointed Arthur J Gallagher Brokers on a two year contract with the option to extend for a further year based on a fixed fee. This award has seen annual savings of £13,225 and a saving of £39,675 over the potential contract period.
- 7.9.4 We are working closely with the new brokers to undertake a full review of our portfolio and are looking forward to the challenge that will inevitably come from a new broker looking after our interests.

7.10 Other Policies

- 7.10.1 With the move to commissioning and new ways of working we have extended the insurance policy to include the names of ip&e Ltd, ip&e Trading and STAR Housing. Therefore these companies are covered under the same policy and conditions as Shropshire Council.
- 7.10.2 The Insurance Team supports and advises the above companies in the same way it supports Shropshire Council.

7.11 Reporting

- 7.11.1 The insurance team have access to detailed management information regarding the number of claims received, the cause and the cost and can report on trends happening within any service area. To this end we provide regular reporting to key service areas such as highways, property services,

and transport operations group which informs their decision making. We also work closely with services to manage their risks and to ensure that incidents do not happen again which have given rise to a claim.

7.11.2 There is close involvement in the Alarm Midlands Group and the Risk & Insurance Manager is deputy chair. This allows the team to be aware of current legislation changes, trends and best practice from other authorities.

List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)

Annual Governance Statement
Risk Management Audit Report
Opportunity Risk Management Strategy
Business Continuity Management Policy
Business Continuity Plan
Insurance Annual Report

Cabinet Member

Mike Owen, Portfolio Holder Resources & Support

Local Member

N/A

Appendices

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<u>Committee and Date</u>
Audit Committee – 17 th September 2015

<u>Item</u>

STRATEGIC RISK REPORT 2015

Responsible Officer Angela Beechey
 e-mail: Angela.beechey@shropshire.gov.uk Tel: (01743) 252073

1. Summary

1.1 This report sets out the current strategic risk exposure together with recent modifications and planned changes to strategic risk management within the authority.

2. Recommendations

2.1 Members are asked to accept the position as set out in the report.

REPORT

3. Current Strategic Risk Exposure

3.1 The management of strategic risk is a key process which underpins the successful achievement of our priorities and outcomes. Strategic risks are linked, where appropriate, with the Annual Governance Statement Action Plan points.

3.2 During 2014/2015 strategic risks have been reviewed and reported on a monthly basis. This is achieved through monthly meetings with key officers, Directors, Chief Executive and Portfolio Holder. These meetings take place over a one week period resulting in an up to date and timely report detailing current risk exposures, changes that have occurred, reasons for changes to exposure and the identification of emerging risks. Attached at Appendix A is the risk definitions and scoring matrix used by officers when reviewing and scoring the risks.

3.3 We currently have 13 strategic risks on our strategic risk register, some of which are managed specifically by certain Directors and others where all Directors input and contribute to the management of these. These are demonstrated as follows:-

Risk	Owner	L	I	Status
1. Failure to implement robust ICT solutions and resilience to support the direction of travel results in significant impact on access to, and management of, material systems and ultimately service delivery. Linked to AGS Action Point 5.	Rod Thomson	3	5	20
2. Costs - Failure to meet savings and income targets resulting in an illegal budget, leading to an inability to deliver vital services. Linked to AGS Action Point 3	James Walton (All Directors input)	3	5	15

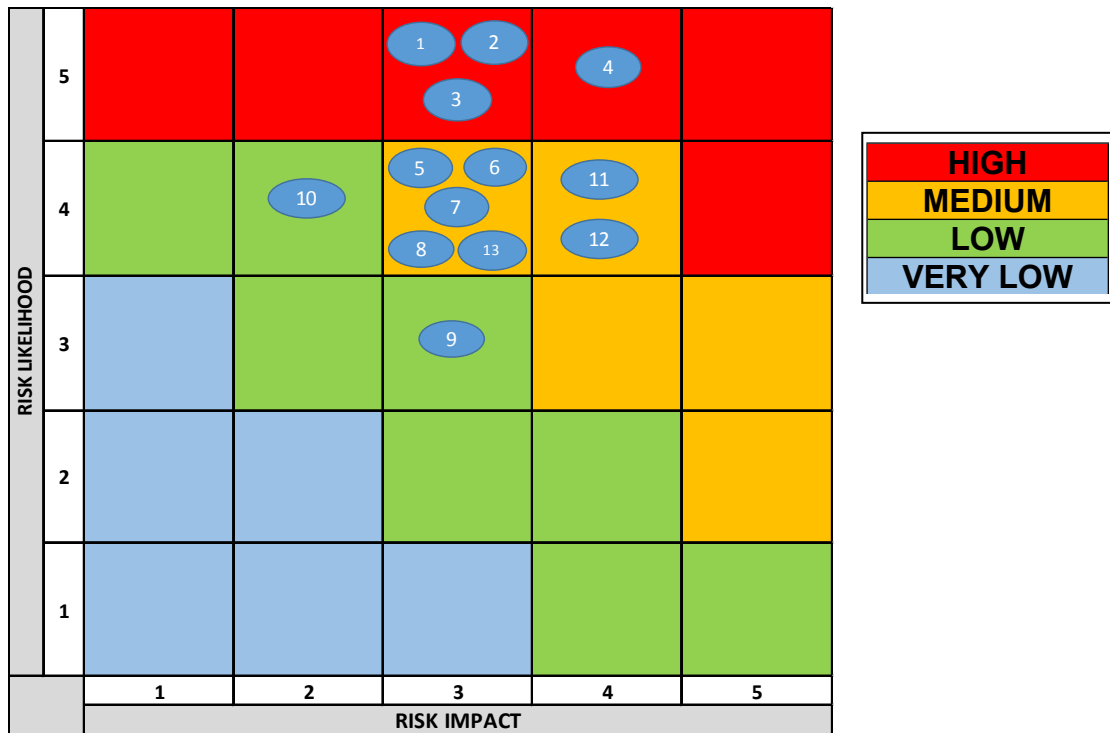
3. Failure to re-design the Council impacts on delivery of services to citizens of Shropshire. Linked to AGS Action Point 2, 6 & 7	Clive Wright (All Directors input)	3	5	15
4. Failure to ensure the Council has sufficient capacity, experienced and qualified staff to sustain services during re-design. Linked to AGS Action Point 4	Michele Leith (All Directors input)	4	5	20
5. Loss of reputation and public confidence in the Council by failing to meet public expectations and identified need. Linked to AGS Action Point 1 and 6	Clive Wright	3	4	12
6. Implementation and impact of alternative service delivery vehicles (e.g. ip&e ltd) Linked to AGS Action Point 5 & 7	Clive Wright	3	4	12
7. Failure to safeguard vulnerable adults	Stephen Chandler	3	4	12
8. Failure to safeguard vulnerable children	Karen Bradshaw	3	4	12
9. Inadequate controls to mitigate the risk of fraud and corruption resulting in inappropriate use of resources (assets, buildings, finance, people)	James Walton	3	3	9
10. Resources - Lack of clarity from Central Government on the future funding levels and increased uncertainty re: local resources, which inhibits the ability to calculate future budgets Linked to AGS Action Point 3	James Walton	2	4	8
11. Inadequate governance arrangements in place to manage the transforming Council (and business as usual governance to support the re-design process) resulting in poor quality service, longer delivery times or higher cost of transformation. Linked to AGS Action Point 7	Clive Wright (All Directors input)	4	4	16
12. Failure to clearly articulate the strategic vision of the Council results in loss of momentum to deliver the redesign outcomes from the business planning process and associated workforce transformation. Linked to AGS Action Point 1	Clive Wright	4	4	16
13. Insufficient standardisation and consistency within contract management and monitoring results in failure to support our outcomes and achieve VfM, efficiencies and innovation as we move towards becoming a commissioning Council.	George Candler (All Directors input)	3	4	12

3.4 One medium risk was deleted during 2014/2015 – “Significant union challenge on how we have implemented/ will implement the/ any changes to T&C's resulting in substantial financial implications”. This risk has been removed as a strategic risk from the register following agreement and sign off by the unions of the multiplier.

3.5 Strategic Risk number 1 (SR01) has been one of our highest strategic risks for some time and an area where there is significant focus. Progress is underway to mitigate this risk through the development of a programme of work. Project plans are being developed to meet the recommendations of recent and historic audit reports and the actions which are required to mitigate

this risk are in the process of being identified, actioned and implemented which will in time reduce our risk exposure.

3.6 Our current risk exposure, when plotted on our matrix is demonstrated as follows:-



4. Planned Changes

- 4.1 The Risk Management Team continuously monitor the most appropriate and effective way to manage the Council’s risk exposure (Strategic, Operational or Project related). With the adoption of a thematic approach by Directors to support the direction of travel for the authority, changes to how we will manage our strategic risk exposure going forward are in the process of being implemented.
- 4.2 It is proposed that the strategic risks will be managed through identifying which of the three key themes they relate to; Commissioning Council, Sustainable Business Model, Shropshire Economy. Furthermore, once identified strategic risks will be identified as inward or outward facing risks.
- 4.3 As part of this redevelopment a complete review of our strategic risk exposure is taking place. This ensures that any emerging strategic risks are considered and incorporated into the new process, that all key priority work streams are included and that we do not just ‘lift and drop’ existing risks into the new process.
- 4.4 This piece of work is due to be completed by the end of September and will include not only Senior Officers and Directors, but Cabinet too. This is to ensure that there is acknowledgement, contribution, agreement and consistency in the identification and management of our strategic risk exposure going forward.

List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)

Annual Governance Statement

Opportunity Risk Management Strategy

Cabinet Member

Mike Owen, Portfolio Holder Resources & Support

Local Member

N/A

Appendices

Appendix A – Risk Matrix

IMPACT	5	H	H	H	H	H
	4	L	L	M	M	H
	3	VL	L	L	M	M
	2	VL	VL	L	L	M
	1	VL	VL	VL	L	L
		1	2	3	4	5
LIKELIHOOD						

Likelih	Score	Risk Likelihood Definition
Rare	1	Risk may occur in exceptional circumstances.
Possible	2	Risk may occur within the next three financial years.
Likely	3	Risk is likely to occur within this
Almost Certain	4	Indication of imminent occurrence.
Certain	5	Risk has occurred and will continue to do so without immediate action being taken.

Impact	Score	Risk Impact Definition
Negligible	1	~ Negligible loss, delay or in ~ Can be easily and quickly ~ No financial loss.
Minor	2	~ Minor loss, delay or intern ~ Short term impact on ope ~ Financial loss which, in ac Financial Rules, could be m key decision limit for Cabine mean a loss of between 50.

		<p>mean a loss of between £0 :</p> <ul style="list-style-type: none"> ~ Failure to meet internal st ~ Affects only one group of ~ No external interest. ~ Isolated complaints.
Significant	3	<ul style="list-style-type: none"> ~ Significant loss, delay or i ~ Medium term impact on o ~ Financial loss which, in ac Rules, would need Member Audit definition of materiality Currently this would mean a would have to be reported to for Member decision. ~ Failure to meet recomme ~ Affects more than one grc ~ May attract short-term atte ~ Significant complaints
Major	4	<ul style="list-style-type: none"> ~ Major loss, delay or intern ~ One off events which coul ~ Widespread medium to lo performance and reputation ~ Financial loss which, in ac Rules, would need member definition of materiality (i.e.) be managed with control ret would mean a loss in exces reported to Council for Mem ~ Breach of legal or contrac ~ Affects more than one grc ~ Will attract medium-term : ~ Significant adverse medi
Critical	5	<ul style="list-style-type: none"> ~ Total sustained loss or dis ~ Long term impact on open reputation. ~ Financial loss which, in ac Rules, would need Member definition of materiality (i.e.) would fall beyond the Council would mean a loss in exces to Council, but would have to other agencies for decision. ~ Serious breach of legal or ~ Affects all groups of stake

		<p>Affects all groups of stakeholders</p> <ul style="list-style-type: none">~ National impact with rapid bodies.~ Extensive adverse media~ Loss of credibility
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NDIX A - Risk Matrix

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<u>Committee and Date</u>	<u>Item</u>
Audit Committee	
17 September 2015	
09:30am	<u>Public</u>

INTERNAL AUDIT PERFORMANCE REPORT 2015/16

Responsible Officer Ceri Pilawski
e-mail: ceri.pilawski@shropshire.gov.uk

Telephone: 01743 252027

1. Summary

This report proposes refinements and revisions to the Internal Audit Plan presented as a draft in February 2015, which amounted to 2,050 audit days. The new plan will provide 2,068 days across the Council's services and external clients. Since February there have been a number of changes to the risks the Council faces and as such the areas requiring assurances from Internal Audit have been adjusted slightly. In addition, a member of staff has reduced their working hours and additional hours have been secured from the external internal audit contractor. The changes have necessitated revisions to the draft plan presented to Committee in February 2015. These have been discussed and agreed with the Section 151 Officer.

This report provides members with details of the work undertaken by Internal Audit for the period 1st April to the 23rd August 2015 summarising progress against Internal Audit Plan. 37% of the revised plan has been completed which is in line with previous delivery records.

Twenty one good and reasonable assurances, 15 unsatisfactory and three limited assurance opinions were issued. The 39 final reports contained 594 recommendations. Two fundamental recommendations have been identified.

2. Recommendations

The Committee are asked to consider and endorse, with appropriate comment;

- a) The performance to date against the 2015/16 Audit Plan set out in this report.
- b) The adjustments required to the 2015/16 plan to take account of changing priorities set out in **Appendix B**.

REPORT

3. Risk assessment and opportunities appraisal

- 3.1 The delivery of a risk based Internal Audit Plan is an essential part of ensuring probity and soundness of the Council's control, financial, risk management systems and governance procedures, and is closely aligned to the Council's strategic and operational risk registers. The Plan is delivered in an effective manner; where Internal Audit independently and objectively examine, evaluate and report on the adequacy of its customers' control environments as a contribution to the proper, economic, efficient and effective use of resources. It provides assurances on the internal control systems, by identifying areas for improvement or potential weaknesses, and engaging with management to address these in respect of current systems and during system design. Failure to maintain robust internal control creates an environment where poor performance, fraud, irregularity and inefficiency can go undetected, leading to financial loss and reputational damage.
- 3.2 Areas to be audited have been identified following a risk assessment process which has considered the Council's risk register information and involved discussions with managers around their key risks.
- 3.3 Provision of the Internal Audit Annual Plan satisfies the Accounts and Audit Regulations 2015, part 2, section 5(1) in relation to internal audit which state that:
- 'A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance'.
- 3.4 'Proper practices' can be demonstrated through compliance with the Public Sector Internal Audit Standards (PSIAS).
- 3.5 The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998 and the Accounts and Audit Regulations 2015.
- 3.6 There are no direct environmental, equalities or climate change consequences of this proposal.

4. Financial implications

- 4.1 The Internal Audit plan is delivered within approved budgets; the work of Internal Audit contributes to improving the efficiency, effectiveness and economic management of the wider Council and its associated budgets.

5. Background

- 5.1 Management is responsible for the system of internal control and should set in place policies and procedures to help ensure that the system is functioning correctly. Internal audit reviews, appraises and reports on the efficiency, effectiveness and economy of financial and other management controls.
- 5.2 The Audit Committee is the governing body charged with monitoring progress on the work of Internal Audit.
- 5.3 The Audit Committee approved the 2015/16 Audit Plan in February 2015. This report provides an update on progress made against the plan up to the 23 August 2015.

- 5.4 Part of the internal audit plan is being provided by external providers through Staffordshire County Council's framework contract for internal audit. Four companies have successfully been appointed to the framework and following a mini-tendering exercise the team is purchasing both general and IT audit days from an external provider from the framework.

Performance against the plan 2015/16

- 5.5 The original plan provided for a total of 2,050 days and has required revisions to reflect changing risks and resources. Extra days have been provided by the external contractor within budget, and a member of staff has reduced their hours from September resulting in an overall increase in the plan to 2,068 days. Performance to date has been good with 37% of the revised plan being achieved. This is in line with previous delivery records and is on target to deliver 90% of the annual plan by year end. **Appendix A, Table 1.**
- 5.6 In total 39 final reports have been issued in the period to 23rd August 2015. These are broken down by service area in **Appendix A, Table 2.**
- 5.7 Twenty one good and reasonable assurances were made in the year accounting for 54% of the opinions delivered. This represents a reduction in the higher levels of assurance compared to the previous year, offset by a 10% increase in limited and unsatisfactory opinions. Three unsatisfactory opinions and 15 limited assurance opinions have been issued, 46% in total.
- 5.8 Children's Services and Customer Involvement continue to show lower assurance levels than others. Children's Services reflect audit reviews of schools. These are considered low risk to the Council overall and will therefore, at this stage, not be expected to affect the Audit Service Manager's overall year-end opinion. The team are continuing to provide some educational support to head teachers, teachers, administrators and governors through forums and area meetings in respect of the control environment to help improve it. Customer Involvement service reviews include a number of ICT infrastructure reviews. The results of these have been considered previously by officers and members and resulted in the Audit Service Manager's opinion being qualified for the last two years. The overall assurance and direction of travel remains a concern given the systems' impact on delivering the Council's objectives. Further reviews in this area will help inform the position of the control environment.
- 5.9 Twelve draft reports have been issued and management responses are awaited, these will be included in the next quarter results. Work has also been completed for external clients in addition to the drafting and auditing of financial statements in respect of three voluntary bodies, two grant certifications and three one-off reviews.
- 5.10 A summary of the planned audit reviews conducted, resulting in an unsatisfactory or limited assurance is included in **Appendix A, Table 3.** The appendix also includes descriptions for the levels of assurance used in assessing the control environment and the classification of recommendations, **Tables 4 and 5.**
- 5.11 A total of 594 recommendations have been made in the 39 final audit reports issued in the year; these are broken down by audit area and appear in **Appendix A, Table 6.**

5.12 Fundamental recommendations were made on the following audits:

- **Sales Ledger 2014/15**

An operational approach, including appropriate liaison and support from the directorates, should be defined with clear targets in respect of reducing debt with details relating to where operational staff will be used to support debt reduction both in terms of the amount of debt and numbers of accounts in debt.

(Updated from recommendations made and agreed between 2009/10 and 2013/14)

- **Hardware Replacement Programme Follow Up 2014/15**

Management should define a hardware replacement strategy aligned to the overall IT Strategy which takes a long term view of hardware procurement, hardware replacement costs, license fees and support staffing demands.

(Updated from recommended previously made and agreed in 2013/14)

5.13 It is management's responsibility to ensure accepted audit recommendations are implemented within an agreed timescale. With the exception of annual audits where recommendations are revisited as a matter of course, recommendations are followed up after six months by obtaining an update from management on progress made.

5.14 Forty six recommendations, equivalent to 8% of all recommendations made, have been rejected by management. This is significantly higher than the number rejected in 2014/15 (0.5%); 2013/14 (0.8%); and 2012/13 (0.9 %), and is mainly down to Grove School rejecting 37 of their recommendations on the 2014/15 audit. Taking the 37 recommendations out of the figures, reduces the rejected percentage to 1.5%. All recommendations have been discussed with the managers concerned. Where the reasons for rejection are not accepted by Internal Audit, and it is considered that the identified risk is not being managed or mitigated, this has been highlighted to the managers concerned.

5.15 In relation to the Grove School, the audit resulted in unsatisfactory assurance and a number of the recommendations were rejected by the Head Teacher. The management comments indicated that actions had been taken to address the weaknesses identified; supporting the fact that the audit finding was correct and that a control issue existed at the time of the audit. In addition, on receipt of the draft report the Head Teacher confirmed that various documents were now available, that had not been during the field work, which will be reviewed as part of the next audit to test their application and how embedded they are with them having being recently introduced. A further factor was a lack of readily available procedure notes for cover in the event of staff absence. This risk had materialised and a number of duties/tasks were not completed during such a staff absence, which contributed to the controls not being found during the audit. As with all audits the review process allowed the client the opportunity to identify any inaccuracies, or provide any evidence that had been missed at the time of the audit, but would not allow for system controls to be (re)introduced and a re-audit completed.

5.16 No fundamental recommendations have been rejected.

Direction of travel

- 5.17 This section compares the Assurance Levels (where given) and categorisation of recommendations made at the Council to demonstrate a direction of travel in relation to the control environment.

Comparison of Assurance Levels (where given)

Assurances	Good	Reasonable	Limited	Unsatisfactory	Total
2015/16 to date	10%	44%	38%	8%	100%
2014/15	17%	47%	28%	8%	100%
2013/14	30%	45%	15%	10%	100%

Comparison of recommendation by categorisation

Categorisation	Best practice	Requires attention	Significant	Fundamental	Total
2015/16 to date	4%	58%	37%	0%	100%
2014/15	6%	53%	40%	1%	100%
2013/14	15%	57%	27%	1%	100%

The statistics suggest a falling level of overall control demonstrated by the increased number of lower level assurances (46% compared to 36%) whilst higher recommendation categorisations awarded are just below the outturn for last year at this mid-way point.

Performance measures

- 5.18 All Internal Audit work has been completed in accordance with the agreed plan and the outcomes of final reports have been reported to the Audit Committee.

<p>List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)</p> <p>Draft Internal Audit Risk Based Plan 2015/16 - Audit Committee 23 February 2015 Public Sector Internal Audit Standards (PSIAS). Various internal documents supporting self-assessment against the PSIAS. Audit Management system. Accounts and Audit Regulations 2015</p>
<p>Cabinet Member (Portfolio Holder) Keith Barrow, Leader of the Council and Brian Williams, Chairman of Audit Committee</p>
<p>Local Member: All</p>
<p>Appendices</p> <p>Appendix A Table 1: Summary of actual audit days delivered against plan to the 23rd August 2015 Table 2: Final audit report assurance opinions issued in the period to 23rd August 2015</p>

Table 3: Unsatisfactory and limited assurance opinions in the period to the 23rd August 2015 listed by service area

Table 4: Audit assurance opinions

Table 5: Audit recommendation categories:

Table 6: Audit recommendations made in the period to the 23rd August 2015

Appendix B - Audit plan by service to August 2015

Table 1: Summary of actual audit days delivered and revisions to the audit plan in the period to 23rd August 2015

	Original Plan	August Revision	Revised Plan Days	Aug 23 Actual	% of Plan Achieved
Chief Executive	58	0	58	11.8	20%
Adult Services	110	23	133	36.3	27%
Commissioning	118	10	128	29	23%
Children's Services	399	9	408	203.5	50%
Public Health	32	0	32	1.4	4%
Resources and Support	517	-5	512	176.7	35%
S151 Planned Audit	1,234	37	1,271	458.7	36%
Contingencies and other chargeable work	595	-19	576	224.9	39%
Total S151 Audit	1,829	18	1,847	683.6	37%
External Clients	221	0	221	71.9	33%
Total	2,050	18	2,068	755.5	37%

Please note that a full breakdown of days by service area is shown at **Appendix B**

Table 2: Final audit report assurance opinions issued in the period to 23rd August 2015

Service area	Good	Reasonable	Limited	Unsatisfactory	Total
Chief Executive	0	0	0	0	0
Adult Services	0	0	2	0	2
Commissioning	0	0	1	0	1
Children's Services	1	8	7	1	17
Public Health	0	0	0	0	0
Resources and Support					
Commercial Services	0	1	0	0	1
Customer Involvement	0	1	5	1	7
Finance, Governance and Assurance	3	5	0	1	9
Human Resources	0	1	0	0	1
Legal, Strategy and Democratic	0	1	0	0	1
Total for the period					
➤ Numbers	4	17	15	3	39
➤ Percentage	10%	44%	38%	8%	100%
% for 2014/15	17%	47%	28%	8%	100%
% for 2013/14	30%	45%	15%	10%	100%

Table 3: Unsatisfactory and limited assurance opinions issued in the period to 23rd August 2015 listed by service area

Unsatisfactory assurance

Children's Services

Grove School 2014/15

Customer Involvement

Hardware Replacement Programme Follow Up 2014/15

Finance Governance and Assurance

Sales Ledger 2014/15

Limited assurance

Adult Services

Adult Social Care Financial Assessments 2014/15

Homepoint IT System

Commissioning

CIVICA Environmental Health System Application Review 2014/15

Children's Services

Leaving Care

Our Lady & St Oswalds Catholic Primary School 2014/15

Bicton CE (Controlled) Primary School

Bomere Heath CE (Controlled) Primary School

Gobowen Primary School

Radbrook Primary School

Ludlow CE School Specialist Technology and Sports College 2014/15

Customer Involvement

Cardholder Management System for Blue Badges

Mobile Devices – iPads, iPhone, Windows Phone 2014/15

Remote Support 2014/15

Corporate Networking – Active Directory

Patch Management

Table 4: Audit assurance opinions: awarded on completion of audit reviews reflecting the efficiency and effectiveness of the controls in place, opinions are graded as follows

Good	Evaluation and testing of the controls that are in place confirmed that, in the areas examined, there is a sound system of control in place which is designed to address relevant risks, with controls being consistently applied.
Reasonable	Evaluation and testing of the controls that are in place confirmed that, in the areas examined, there is generally a sound system of control but there is evidence of non-compliance with some of the controls.
Limited	Evaluation and testing of the controls that are in place performed in the areas examined identified that, whilst there is basically a sound system of control, there are weaknesses in the system that leaves some risks not addressed and there is evidence of non-compliance with some key controls.
Unsatisfactory	Evaluation and testing of the controls that are in place identified that the system of control is weak and there is evidence of non-compliance with the controls that do exist. This exposes the Council to high risks that should have been managed.

Table 5: Audit recommendation categories: an indicator of the effectiveness of the Council’s internal control environment and are rated according to their priority

Best Practice (BP)	Proposed improvement, rather than addressing a risk.
Requires Attention (RA)	Addressing a minor control weakness or housekeeping issue.
Significant (S)	Addressing a significant control weakness where the system may be working but errors may go undetected.
Fundamental (F)	Immediate action required to address major control weakness that, if not addressed, could lead to material loss.

Table 6: Audit recommendations made in the period to 23 August 2015

Service area	Number of recommendations made				
	Best practice	Requires attention	Significant	Fundamental	Total
Chief Executive	0	0	0	0	0
Adult Services	0	17	16	0	33
Commissioning	0	9	8	0	17
Children’s Services	23	215	137	0	375
Public Health	0	0	0	0	0
Resources and Support					
Commercial Services	0	5	1	0	6
Customer Involvement	3	25	33	1	62
Finance, Governance and Assurance	0	51	16	1	68
Human Resources	0	16	11	0	27
Legal, Strategy and Democratic	0	3	3	0	6
Total for the period					
➤ Numbers	26	341	225	2	594
➤ Percentage	4%	58%	37%	0%	100%
% for 2014/15	6%	53%	40%	1%	100%
% for 2013/14	15%	57%	27%	1%	100%

AUDIT PLAN BY SERVICE –PERFORMANCE REPORT TO AUGUST 2015/16

	Original Plan Days	August Revision	Revised Plan Days	Aug 23 Actual	% of Plan Achieved
CHIEF EXECUTIVE					
Governance	58	0	58	11.8	20%
ADULT SERVICES					
Social Care Operations					
Long Term Support	55	7	62	21.5	35%
Provider Services - Establishments	13	11	24	0.1	0%
Housing Services	29	1	30	5.4	18%
	97	19	116	27.0	23%
Social Care Efficiency and Improvement					
Development Support	13	4	17	9.3	55%
ADULT SERVICES	110	23	133	36.3	27%
COMMISSIONING					
Waste & Bereavement	10	0	10	5.5	55%
Leisure Services	13	0	13	2.4	18%
Highways	14	1	15	4.6	31%
Development Management	18	3	21	0.9	4%
Visitor Economy	5	0	5	1.3	26%
Business & Enterprise	15	0	15	0.0	0%
Project Development	5	0	5	0.0	0%
Community Safety	23	6	29	12.9	44%
Environmental Protection and Prevention	15	0	15	1.4	9%
COMMISSIONING	118	10	128	29.0	23%
CHILDREN'S SERVICES					
Safeguarding					
Assessment & Looked After Children	5	2	7	7.6	109%
Safeguarding	20	0	20	3.9	20%
Children's Placement and Joint Adoption	58	-5	53	53.9	102%
	83	-3	80	65.4	82%
Learning and Skills					
Business Support	17	7	24	14.1	59%
Education Improvements	16	0	16	4.2	26%
Primary/Special Schools	250	7	257	110.9	43%
Secondary Schools	23	3	26	8.1	31%
	306	17	323	137.3	43%

	Original Plan Days	August Revision	Revised Plan Days	Aug 23 Actual	% of Plan Achieved
Learning Employment and Training	10	-5	5	0.8	16%
CHILDREN'S SERVICES	399	9	408	203.5	50%
PUBLIC HEALTH	32	0	32	1.4	4%
RESOURCES AND SUPPORT					
Customer Care, Commercial and Support Services					
Estates & Facilities	5	4	9	0.1	1%
Property Services	23	11	34	14.4	42%
Shire Services	23	3	26	16.3	63%
	51	18	69	30.8	45%
Service Support, Marketing and Engagement					
Customer Services	34	1	35	8.5	24%
ICT	83	6	89	28.2	32%
	117	7	124	36.7	30%
Finance Governance & Assurance					
Finance Transactions	69	-13	56	5.8	10%
Finance and S151 Officer	65	-10	55	45.5	83%
Financial Management	37	3	40	2.4	6%
Procurement and Contract Management	25	0	25	5.5	22%
Benefits	29	-5	24	0.3	1%
Revenues	40	-10	30	1.0	3%
Risk Management and Business Continuity	5	1	6	0.0	0%
Treasury	10	4	14	10.7	76%
	280	-30	250	70.2	28%
Human Resources					
Payroll and Human Resources	52	-7	45	26.5	59%
Legal, Democratic & Strategic Planning					
Information Governance	7	5	12	0.4	3%
Legal Services	10	2	12	12.1	101%
	17	7	24	12.5	52%
RESOURCES AND SUPPORT	517	-5	512	176.7	35%

	Original Plan Days	August Revision	Revised Plan Days	Aug 23 Actual	% of Plan Achieved
Total Shropshire Council Planned Work	1,234	37	1,271	458.7	36%
CONTINGENCIES					
Advisory Contingency	40	0	40	25.9	65%
Fraud Contingency	250	-34	216	51.6	24%
Unplanned Audit Contingency	45	0	45	39.1	87%
Other non audit Chargeable Work	260	15	275	108.3	39%
CONTINGENCIES	595	-19	576	224.9	39%
Total for Shropshire	1,829	18	1,847	683.6	37%
EXTERNAL CLIENTS	221	0	221	71.9	33%
Total Chargeable	2,050	18	2,068	755.5	37%

By virtue of paragraph(s) 2, 3, 7 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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